

public reports. Lastly, Mr. Ricker mentioned that NECA would be asking providers to submit the same cost and demand data for the 2008-2009 filing.

Old Business / New Business

Ms. Dixie Ziegler thought it would be helpful to add an unscheduled discussion item concerning the overall philosophy of and management of the Fund, why funds are invested in Treasury Bills and how NECA administrative expenses are calculated. The Council members agreed and Mr. Ricker provided a brief overview of the management of the Fund. The Council inquired about the TRS user representative vacancy on the Council, how that vacancy would be filled and the rules surrounding the nomination of a Council member. Ms. Cardoso answered the council's questions.

Adjourned for Lunch

Reconvene after Lunch

Warren Barnett, Council Chair, re-convened the meeting at 1:00 pm.

Old Business / New Business continued

Ms. Ziegler discussed the Sub-Committee Meeting held in May 2007. The topics the committee discussed was the role of the council, rate methodology, the transparency issue, the enforcement bureau's role and E911 and numbering. The sub-committee discussed plans to meet again to continue the work they started on emergency issues and numbering.

Mr. Clayton Bowen, representing NASRA on the TRS Advisory Council, mentioned that he would pass along to the states the discussion on the increase of VRS minutes and the potential responsibilities to the states may be more than originally anticipated if the FCC would pass on to the states the intrastate portion of the calls now being paid entirely from the Interstate TRS Fund.

Kelby Brick made a motion for the council to make a resolution requiring that NECA communicate with the council about any instructions from the FCC regarding the way NECA works with the council or provides information to the council and discussions the FCC has with NECA that affect the council.

The council proceeded to discuss the items mentioned during the FCC update that the council may want to get involved in. Those items included the council's written support for the FCC reorganization of the TRS Rules, role of the council, growth in the minutes, costs, true-up mechanism and what does the consolidation of the industry say about the rate and capital investment. NECA offered to draft a letter for the council to review in reference to the council's support of the FCC reorganization of the FCC Rules. The council committee agreed to discuss E911, numbering, reorganization of the FCC Rules and communication between difference devices.

Next Meeting

The next Interstate TRS Advisory Council meeting will be held in Washington DC on Thursday, March 27, 2008 with the dinner on Wednesday, March 26.

Adjourn

The meeting was adjourned at approximately 2:30 p.m.

Respectfully submitted,
Clayton Bowen
Secretary

By Jill Cardoso, NECA

Warren Barnett, Chair
Larry Brick
Jack R.Cassell
Toni Action (alternate for Gail Sanchez)

Clayton Bowen, Sect'y
Rebecca Ladew
Sheila Conlon-Mentkowski

Kelby Brick
Dixie Ziegler



**INTERSTATE TELECOMMUNICATIONS
RELAY SERVICES FUND**

Financial Statements

September 30, 2007 and 2006

With Independent Auditors' Report

Interstate Telecommunications Relay Services Fund
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September 30, 2007 and 2006

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Management's Discussion and Analysis

Overview of NECA

INTRODUCTION

This Performance and Accountability Report (PAR or report) contains management and financial information about the National Exchange Carrier Association's (NECA) administration of the Interstate Telecommunications Relay Services (TRS) Fund.

Management's Discussion and Analysis includes an overview of NECA and its vision and organizational structure; an overview of the TRS Fund Fiscal Year 2007; and support for the Supplemental Schedule. TRS financial statements for FY 2007 and notes to the financial statements complete the PAR.

ABOUT NECA AND THE TRS FUND

The Federal Communications Commission (FCC) formed the National Exchange Carrier Association (NECA) in 1983 to perform telephone industry tariff filings and revenue distributions following the breakup of AT&T. NECA is a not-for-profit corporation responsible under Subpart G of the Commission's Part 69 rules for administering interstate access charge pools for participating local exchange carriers (LEC).

Access charges are the fees long distance companies pay to access the local phone network to complete calls. These charges help ensure that telephone service remains available and affordable in all parts of the country. NECA manages the distribution of these interstate access revenues through revenue pooling. More than 1,200 LECs voluntarily participate in NECA's access charge revenue pools. Services NECA provides to these companies include:

- Files access charge tariffs with the FCC
- Collects and validates cost and revenue data
- Distributes revenues from access charges among pool members, based on each company's costs of providing interstate access
- Offers training and education on a wide variety of telecom topics

In 1993, NECA was appointed administrator of the Interstate TRS Fund because of its experience in administering the access pool, including the Universal Service Fund and Lifeline Assistance programs. The FCC reappointed NECA twice, in 1995 and 1999. In 2003, the FCC extended NECA's term on a month-to-month basis.

NECA administers the TRS Fund under the FCC's direction. The TRS Fund compensates relay service providers for the reasonable costs of offering services that enable a person with a hearing or speech disability to communicate with a person without such a disability. The costs of providing relay services are recovered from subscribers of interstate telecommunications services through a shared funding cost recovery mechanism.

NECA is headquartered in Whippany, NJ with six regional offices located throughout the nation.

NECA's Board of Directors has 15 members as required by Section 69 of the FCC rules. Ten Directors represent three membership subsets and five represent all members (outside Directors).

NECA VISION

NECA will play a vital role in the 21st century telecommunications industry, helping member companies and others assure the benefits of advanced telecommunications services are available to all consumers at affordable rates.

NECA TRS REPORTING STRUCTURE

Three staff members in the Universal Service Program Support group of NECA's Operations Department are dedicated solely to the day-to-day administration of the TRS Fund. The group's primary responsibilities are provider cost and demand data analysis, provider reimbursement, carrier contribution management, and financial reporting. In addition, personnel in the Financial Operations and General Accounting and Tax groups in the Finance Department support the billing, collection, disbursement and reporting functions related to the Fund.

INTERSTATE TRS FUND, Fiscal Year 2007

The FY 2007 audit covers the period from October 1, 2006 through September 30, 2007. The current funding period for the TRS Fund is July of one year through June of the following year. In mid -2004, NECA requested and the FCC approved the change of the fiscal period from July – June, coincident with the funding period, to October – September, coincident with the FCC's fiscal year. This step was taken to facilitate the effort associated with the audit of the TRS Fund as part of the FCC's financial statements, performed annually between February and October.

The Interstate TRS Fund grew from a fund size of \$90 million for the 2002 – 2003 funding period to \$553.4 million for the 2007 – 2008 funding period. There was an increase in the fund requirement for the 2007 – 2008 funding period of \$133 million from the previous fund year of \$419.7 million. This recent growth in the funding requirement is due primarily to the unprecedented growth in demand for VRS.

Traditional interstate TRS minutes grew steadily from the TRS Fund's inception in 1993 through 1998 but growth was basically flat between 1999 to 2001, beginning each year with 2.8 – 2.9 million minutes and ending with 2.7 – 2.8 million minutes. In January 2002, 2.9 million traditional TRS minutes were reported. In December 2002, after the introduction of VRS and IP, only 2.3 million traditional TRS minutes were reimbursed. Traditional interstate TRS minutes reported in September, the last month of FY 2007, totaled only 952 thousand compared to 5.9 million IP and 5.7 million VRS minutes.

Although the FCC authorized the reimbursement of all VRS minutes on a temporary basis in a March 2000 Report and Order, it was not until the FCC granted requests for waivers of certain VRS requirements in a December 31, 2001 Order that providers began to offer the service. The number of providers grew from two in January 2002 to eleven in September 2007. During FY 2007, there were more VRS providers than any other type.

In April 2002, the FCC approved the reimbursement of all IP Relay minutes from the Interstate TRS Fund. Because there was no automatic means to determine whether a call made via IP Relay was intrastate or interstate, the FCC authorized the recovery of all costs associated with providing the service from the TRS Fund on an interim basis. In March 2003, the FCC directed NECA not to pay for IP Relay minutes placed to international locations due to the apparent fraudulent use of the service discovered by NECA. Seven providers offered IP Relay during FY 2007.

In June 2007, the FCC released a Report and Order extending disability access requirements to Interconnected VoIP providers, including contributing to the Interstate TRS Fund. Previously, interconnected VoIP providers were not required to contribute to the fund. This order became effective on October 5, 2007.

SUPPLEMENTAL SCHEDULE – Program Costs and Unaudited Budget (in thousands)

Monthly provider reimbursement projections are developed after determining the growth rates for each of the four relay services – interstate traditional TRS, STS, IP and VRS – in April each year in conjunction with the annual fund filing. The monthly projections for each service are multiplied by the per minute reimbursement rate for each and added together to arrive at the total monthly projection. For FY 2007, provider reimbursement projections totaled \$479,483; actual reimbursement was \$522,962 for a difference of (\$43,479). This difference is primarily attributable, to VRS actual minute results greater than budget.

Administrative expenses increased \$29 over projection primarily because of additional expenses in the area of billing and collections.

Uncollectibles have remained low during FY 2007 due to increased collection efforts and the impact of the implementation of the Red Light Rule portion of the Debt Collection Improvement Act (DCIA). Under the Red Light Rule, the FCC will not fulfill the requests of any carrier who has not paid its contribution to the TRS Fund. Carriers are also more aware that their delinquency will be transferred to the FCC if it is not paid by ninety days following the payment due date.



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Independent Auditors' Report

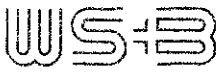
To the Board of Directors,
National Exchange Carrier Association, Inc.

We have audited the balance sheets of the Interstate Telecommunications Relay Services Fund (the "TRS Fund") administered by the National Exchange Carrier Association, Inc. (the "Company") as of September 30, 2007 and 2006, and the related statements of net cost and changes in net position for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the TRS Fund at September 30, 2007 and 2006, and its net cost, and changes in net position for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated February 18, 2008 on our consideration of the TRS Fund's internal control over financial reporting, and on our tests of the TRS Fund's compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of the report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of our audits performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audits.



Our audits were made for the purpose of forming an opinion on the basic financial statements taken as a whole. The Management Discussion and Analysis and Supplemental Schedule – Program Costs and Unaudited Budget is not a required part of the basic financial statements but is supplementary information in accordance with OMB Circular A-136, as applicable. We have applied certain limited procedures to such information, which consisted principally of inquiries of the TRS Fund's management regarding the methods of measurement and presentation of the supplemental schedule. However, we did not audit the information and express no opinion on it.

Withen Smith & Braun P.C.

Princeton, New Jersey
February 18, 2008



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Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*

To the Board of Directors,
National Exchange Carrier Association, Inc:

We have audited the financial statements of the Interstate Telecommunications Relay Services Fund (the "TRS Fund") as of and for the years ended September 30, 2007 and 2006, and have issued our report thereon dated February 18, 2008. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered National Exchange Carrier Association's (NECA's) internal control, in its role as administrator of the TRS Fund, over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of NECA's internal control over financial reporting, as administrator of the TRS Fund. Accordingly, we do not express an opinion on the effectiveness of NECA's internal control over financial reporting, as administrator of the TRS Fund.

A *control deficiency* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of TRS's financial statements that is more than inconsequential will not be prevented or detected by the NECA's internal control, as administrator of the TRS Fund.

A *material weakness* is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the NECA's internal control, as administrator of the TRS Fund.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the TRS Fund's financial statements are free of material misstatement, we performed tests of compliance of NECA as administrator for the TRS Fund with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could



have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audits, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of NECA and the Federal Communications Commission and is not intended to be and should not be used by anyone other than these specified parties.

Withen Smith & Braun ^{P.C.}

February 18, 2008

Interstate Telecommunications Relay Services Fund
Balance Sheets
September 30, 2007 and 2006
(in thousands)

	2007	2006
Assets		
Cash and other monetary assets	\$ --	\$ 546
Investments in United States Treasury Securities, net of discount and amortization	106,593	138,833
Accounts receivable, net	<u>8,529</u>	<u>18,917</u>
Total assets	<u>\$ 115,122</u>	<u>\$ 158,296</u>
Liabilities		
Accrued liabilities	\$ 47,455	\$ 36,334
Deferred revenue	40,653	30,921
Prepaid contributions	1,343	1,404
Accounts payable	<u>68</u>	<u>61</u>
	89,519	68,720
Net Position		
Cumulative results of operations	<u>25,603</u>	<u>89,576</u>
Total liabilities and net position	<u>\$ 115,122</u>	<u>\$ 158,296</u>

The Notes to Financial Statements are an integral part of these statements.

Interstate Telecommunications Relay Services Fund
Statements of Net Cost
For the Years Ended September 30, 2007 and 2006
(in thousands)

	2007	2006
Program Costs:		
Provider reimbursements	\$ 522,962	\$ 402,383
Administrative expenses	1,037	888
Uncollectibles	<u>2,298</u>	<u>650</u>
Total costs	<u>526,297</u>	<u>403,921</u>
Net Cost of Operations	<u>\$ 526,297</u>	<u>\$ 403,921</u>

The Notes to Financial Statements are an integral part of these statements.

Interstate Telecommunications Relay Services Fund
Statements of Changes in Net Position
For the Years Ended September 30, 2007 and 2006
(in thousands)

	2007	2006
Cumulative Results of Operations - Beginning Balance	\$ 89,576	\$ 36,126
Financing Sources:		
Carrier contributions	456,117	451,872
Interest revenue	5,945	5,274
Other	<u>262</u>	<u>225</u>
Total Financing Sources	551,900	493,497
Less: Net Cost of Operations	<u>526,297</u>	<u>403,921</u>
Cumulative Results of Operations - Ending Balance	<u>\$ 25,603</u>	<u>\$ 89,576</u>

The Notes to Financial Statements are an integral part of these statements.

Interstate Telecommunications Relay Services Fund
Notes to Financial Statements
September 30, 2007 and 2006
(in thousands)

1. Reporting Entity

The sole reporting component is the Interstate Telecommunications Relay Services Fund (the "TRS Fund"). The TRS Fund is a not-for-profit fund established by the Federal Communications Commission (the "FCC") in 1993, in accordance with Title IV of the Americans With Disabilities Act, which required nationwide Interstate Telecommunications Relay Services ("TRS"). Traditional TRS allow people with hearing and/or speech disabilities who use text telephones to talk with people who use standard telephones. In a March 2000 Report and Order, the FCC added Speech-to-Speech ("STS") to the list of required services. STS involves the use of specially trained Communications Assistants who understand the speech patterns of persons with speech disabilities. In the same March 2000 Order, the FCC encouraged the offering of Video Relay Service ("VRS") to make it easy for a sign language user to make a TRS call. VRS allows a person using sign language to communicate visually with an interpreter at the VRS center instead of using a text telephone to converse with a Communications Assistant. In April 2002, the FCC authorized reimbursement of Internet Protocol ("IP") Relay Services. IP relay users access the service via the Internet. In August 2003, the FCC determined eligible providers of Captioned Telephone VCO service ("CTV") are eligible to be reimbursed for interstate minutes. In January 2007, the FCC recognized that Internet Protocol (IP) Captioned Telephone Service may be compensated from the Interstate TRS Fund.

The FCC named the National Exchange Carrier Association, Inc. ("NECA" or "the Company") as administrator of the TRS Fund. NECA was appointed to serve as the administrator through July 25, 2003 (Memorandum Opinion and Order, CC Docket No. 90-571 released July 1, 1999). On July 11, 2003, NECA's term was extended by the FCC on a month-to-month basis until terminated in writing by them.

TRS funds are collected from all common carriers providing interstate services and distributed monthly to qualified relay service providers ("service providers"). The annual contribution factor is developed by NECA and approved by the FCC based upon estimates of the revenue requirements necessary to provide services in the upcoming 12-month period. The factor is determined by taking into consideration the projected funding requirements of providing interstate TRS (including CTV) and STS, intrastate and interstate VRS and IP Relay Services, a reserve for uncollectibles of 10%, interest income, and any fund surplus/shortfall which is carried over from the prior year. Effective October 5, 2007, the Commission determined that VoIP providers are subject to contributing to the TRS Fund.

The common carriers' annual contribution factor, approved by the FCC, was .00535 per each dollar of interstate revenue reported by the common carriers for the period July 1, 2006 through June 30, 2007, and .0072 per each dollar of interstate revenue reported by the common carriers for the period July 1, 2007 through June 30, 2008. On February 6, 2008, the FCC released Order DA 08-303 revising the common carrier contribution factor to .00819 for the period July 1, 2007 through June 30, 2008. The common carriers' contributions are shown on the statement of changes in net position as "carrier contributions" as prescribed by the FCC in Part 64 of Title 47 of the Code of Federal Regulations.

The FCC rules require common carriers to file their Form 499-A reporting their revenues annually. The "accounts receivable" on the balance sheet, as well as the "carrier contributions" on the statement of changes in net position reflect the contributions based on revenues that are reported by the common carriers.

Payments to service providers for TRS (including CTV), STS, CTS, VRS and IP Relay Services are based on conversation minutes, as submitted by the service providers, multiplied by a rate per minute as calculated by NECA and approved by the FCC. The rate per minute is an average rate among all service providers and is calculated based on total estimated costs to provide each service divided by total expected conversation minutes to be provided.

Interstate Telecommunications Relay Services Fund
Notes to Financial Statements
September 30, 2007 and 2006
(in thousands)

The following table illustrates the rates in effect during the reporting period.

	<u>TRS</u>	<u>STS</u>	<u>VRS</u>	<u>IP RELAY SERVICES</u>	<u>CTS/ interstate & intrastate IP CTS</u>
7/1/06-6/30/07	\$1.291	\$1.409	\$6.644	\$1.293	--
7/1/07-2/29/08	\$1.291	\$1.409	\$6.644	\$1.293	--
3/1/08-6/30/08	\$1.592	\$2.723	**	\$1.293	\$1.629

** The tiered rate per minute for VRS is as follows: the first 50,000 monthly minutes at \$6.77, from 50,001 to 500,000 monthly minutes at \$6.50, over 500,000 monthly minutes at \$6.30

On November 19, 2007, the FCC released Report and Order and Declaratory Ruling 07-186, adopting a new cost recovery methodology for interstate TRS, interstate STS, interstate CTS and interstate and intrastate IP CTS based on the MARS plan. The Order also adopts a cost recovery methodology for IP Relay based on price caps and for VRS that adopts tiered rates based on call volume.

2. Summary of Significant Accounting Policies

Basis of Presentation

These financial statements have been prepared in accordance with U.S. Federal generally accepted accounting principles and the form and content for entity financial statements specified by OMB Circular A-136, as applicable.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Cash and Cash Equivalents

Cash and cash equivalents consist of cash and money market funds, at several financial institutions, with an original maturity when purchased of three months or less.

Investments

Treasury Securities are considered held to maturity investments, regardless of original maturity when purchased. Investments are reported at amortized cost.

Allowance for Doubtful Accounts

Allowance for doubtful accounts amounted to \$16,260 and \$14,365 at September 30, 2007 and 2006, respectively to provide for anticipated uncollectible amounts from certain carriers. Uncollectible contributions of \$403 and \$228 were written off during the year ended September 30, 2007 and 2006, respectively.

Revenue Recognition

Carriers contributing into the TRS Fund, file Form 499-A with the Data Collection Agent ("DCA"). The Form 499-A reports the carrier's interstate and international revenue. This information is used to compute the carrier's contribution for the funding year based upon the FCC approved contribution factor. The Form 499-A computes TRS Fund contributions for the period July 1, through June 30, of the subsequent year. Carriers must submit their contribution in July for the entire year, unless the annual contribution exceeds one thousand two hundred dollars, which allows the carrier the option to remit payment on a monthly straight line basis.

Interstate Telecommunications Relay Services Fund
Notes to Financial Statements
September 30, 2007 and 2006
(in thousands)

The TRS Fund recognizes revenue on a monthly basis to match monthly minute reimbursements to service providers.

During the years ended September 30, 2007 and 2006, the TRS fund recognized three months of required contributions for those carriers who elected to remit monthly for the 2007-2008 and 2006-2007 funding period, respectively. The TRS Fund also recognized 3 months of the total required contribution for those carriers who were required to remit annually for each funding period payment, and the remaining 9 months of the required contribution is reflected in deferred revenue. Deferred revenue at September 30, 2007 and 2006 was \$40,653 and \$30,921, respectively.

Retroactive Billing Adjustments

Contributors to TRS are permitted to revise their revenue data, which may result in adjustments to amounts previously billed. The TRS Fund has recorded these adjustments in current period billings rather than reflecting these adjustments in the period in which they pertain. Likewise, certain adjustments affecting contributions to the TRS Fund may happen subsequent to the financial statement date. These adjustments are recorded and recognized in the subsequent period or periods. The current period financial statements reflect known adjustments occurring within one month subsequent to period end.

3. Administrative Expenses

Administrative expenses for the years ended September 30, 2007 and 2006 follows:

	2007	2006
Direct labor costs	\$ 288	\$ 270
NECA allocated common costs	586	397
Miscellaneous	59	93
Consultants	40	56
Data collection agent	56	65
Travel	8	7
Total administrative costs	<u>\$ 1,037</u>	<u>\$ 888</u>

NECA administrative expenses charged to the TRS Fund are allocated in accordance with NECA's Cost Accounting and Procedures Manual ("CAM") filed with and approved by the FCC annually. NECA annually submits a Statement of Cost Allocation System Compliance to the FCC for which a schedule of costs incurred by category (including the TRS Fund) is attached. NECA has independent auditors review its cost allocation procedures to ensure such procedures are in compliance with the CAM. The latest audit report issued was dated March 14, 2007 and covers the year ended December 31, 2006.

Costs for NECA personnel specifically assigned to the TRS Fund such as salaries, benefits and travel are directly charged to the TRS Fund. Common costs are accumulated in defined cost pools and allocated on a monthly basis to the TRS Fund using activity based cost drivers as further described in NECA's CAM. These costs include legal, auditing, finance, information systems, facilities and general overheads.

The DCA collects revenue information from interstate telecommunications service providers on FCC Form 499-A, and allocates the cost associated with the collection process to the various programs. For the years ended September 30, 2006 and 2007, Universal Service Administrative Company ("USAC") performed the DCA function and TRS paid USAC 8% of total DCA expenses.

4. Taxes

The TRS Fund was established in accordance with the Americans with Disabilities Act directed by the FCC and therefore not subject to Federal or state income, sales, use, gross receipts or other taxes. As such, no provision for such taxes has been reflected in the accompanying financial statements.

Interstate Telecommunications Relay Services Fund
Notes to Financial Statements
September 30, 2007 and 2006
(in thousands)

5. Concentrations

The TRS Fund periodically maintains cash balances at various financial institutions, and may at times exceed amounts insured by the Federal Deposit Insurance Corporation. Since these are high quality financial institutions, management does not believe the TRS Fund is exposed to any risk on cash balances.

6. Investments

The following summarizes Investments as of September 30, 2007:

Marketable Securities:	<u>Maturity Value</u>	<u>Discount</u>	<u>Amortized Discount</u>	<u>Amortized Cost</u>	<u>Market Value Disclosure</u>
Treasury Bills	\$ 107,368	(\$ 1,498)	\$ 723	\$ 106,593	\$ 106,667

The investment portfolio as of September 30, 2007 consists of several Treasury Bills with an original maturity ranging from 55 days to 154 days, and includes interest at a rate ranging from to 3.64% to 4.84%.

The following summarizes Investments as of September 30, 2006:

Marketable Securities:	<u>Maturity Value</u>	<u>Discount</u>	<u>Amortized Discount</u>	<u>Amortized Cost</u>	<u>Market Value Disclosure</u>
Treasury Bills	\$ 139,922	(\$ 2,064)	\$ 975	\$ 138,833	\$ 138,900

The investment portfolio as of September 30, 2006 consists of several Treasury Bills with an original maturity ranging from 77 days to 174 days, and includes interest at a rate ranging from to 4.91% to 5.10%.

The TRS Fund recognizes interest income based upon straight line amortization. All Treasury securities, regardless of the original maturity date, are reported as Investments. The TRS Fund generally expects to hold investments to maturity; therefore, no adjustments have been made to present market values.



SUPPLEMENTARY INFORMATION

Interstate Telecommunications Relay Services Fund
Supplemental Schedules - Program Costs and Unaudited Budget
For the Years Ended September 30, 2007 and 2006
(in thousands)

	<u>2007</u>			<u>2006</u>		
Program Costs:	<u>Actual</u>	<u>Unaudited Budget</u>	<u>Over/(Under) Budget</u>	<u>Actual</u>	<u>Unaudited Budget</u>	<u>Over/(Under) Budget</u>
Provider reimbursements	\$ 522,962	\$ 479,483	\$ 43,479	\$ 402,383	\$ 420,479	\$ (18,096)
Administrative expenses	1,037	1,008	29	888	819	69
Uncollectibles	2,298	47,600	(45,302)	650	43,000	(42,350)
Total costs	<u>526,297</u>	<u>528,091</u>	<u>(1,794)</u>	<u>403,921</u>	<u>464,298</u>	<u>(60,377)</u>
Net Cost of Operations	<u>\$ 526,297</u>	<u>\$ 528,091</u>	<u>\$ (1,794)</u>	<u>\$ 403,921</u>	<u>\$ 464,298</u>	<u>\$ (60,377)</u>

See Independent Auditors' Report.